

**MISSOURI PUBLIC ENTITY RISK
MANAGEMENT FUND**

Jefferson City, Missouri

INDEPENDENT AUDITORS' REPORT

For the Years Ended December 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Missouri Public Entity Risk Management Fund
Jefferson City, Missouri:

We have audited the accompanying basic financial statements of **Missouri Public Entity Risk Management Fund** (MOPERM), as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of MOPERM's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Missouri Public Entity Risk Management Fund**, as of December 31, 2011 and 2010, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, ten year loss development information, and reconciliation of claims liabilities by type of contract be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of

management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Evers & Company, CPA's, LLC

EVERS & COMPANY, CPA's, L.L.C.
Jefferson City, Missouri

March 19, 2012

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Management of the Missouri Public Entity Risk Management Fund (MOPERM) offers this narrative overview and analysis of the financial activities of MOPERM for the fiscal years ended December 31, 2011 and 2010. We encourage readers to consider the information presented here in conjunction with MOPERM's financial statements and notes to the financial statements to enhance their understanding of MOPERM's financial performance.

Fund Accounting

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MOPERM, a corporate and political body created by the Missouri General Assembly, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. MOPERM is considered to be a related party but not a component unit of the State of Missouri. There are three categories available for governmental accounting: governmental funds, proprietary funds and fiduciary funds. MOPERM's funds are considered proprietary funds.

Proprietary funds. Proprietary funds account for governmental operations that are designed to be self-supporting from fees charged to consumers for the provision of goods and services or where the government has decided that the periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting practices of proprietary funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources through the use of accrual accounting. Of the two types of proprietary funds, MOPERM maintains one type: Enterprise Fund. MOPERM's purpose is to provide liability and property insurance coverage to participating public entities, their officials and employees.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MOPERM's financial statements. Typically, government financial statements would be presented as three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. However, as MOPERM uses only Proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail, we do not present government-wide financial statements as the information would be repetitive.

The financial statements, in addition to management's discussion and analysis, are comprised of the balance sheet; the statement of operations and changes in retro return reserve; the statement of cash flows and the notes to financial statements. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles applicable to governmental enterprise funds.

The balance sheet presents MOPERM's financial position as of the end of the fiscal year. Information is displayed on assets and liabilities, with the difference between the two reported as retro return reserve. The retro return reserve of MOPERM reflect the resources available as of the end of the fiscal year to pay claims of participants when due. Over time, increases and decreases in retro return reserve measure whether MOPERM's financial position is improving or deteriorating.

The statement of operations and changes in retro return reserve presents information detailing the revenues and expenses that resulted in the change in retro return reserve that occurred during the current fiscal year. All revenues and expenses are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual

cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. For example, contributions due from a public entity, even though not yet paid by fiscal year end, will be reflected as revenue. Likewise, claims that occurred during the fiscal year under self-insured plans will be reflected as an expense, whether or not they have been paid as of the end of the fiscal year.

The statement of cash flows presents the cash provided and used by MOPERM categorized by operating activities, noncapital financing activities, capital and related financing activities, and investing activities. It reconciles the beginning and end-of-year cash balances contained in the balance sheet. The effects of accrual accounting and noncash activities, such as depreciation, are adjusted to supplement the presentation in the statement of operations and changes in retro return reserve.

The notes to financial statements follow the basic financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, required supplementary information is presented illustrating MOPERM's past ten years of earned revenues and investment income compared to related costs of loss and other expenses incurred by MOPERM.

Financial Analysis

The following tables present the summarized financial position and results of operations for the fiscal years ended December 31, 2011, 2010 and 2009. Additional details are available in the accompanying financial statements.

	2011	2010	2009
ASSETS			
Cash and investments	\$114,470,841	\$106,607,848	\$100,991,838
Receivables	706,034	735,502	715,444
Capital assets	1,448,420	1,437,362	1,088,592
Other	12,033	10,082	11,126
Total assets	\$116,637,328	\$108,790,794	\$102,807,000
LIABILITIES			
Loss and loss adjustment expense	\$ 50,850,122	\$ 50,614,714	\$ 48,830,956
Other	9,629,065	7,506,879	7,682,098
Total Liabilities	60,479,187	58,121,593	56,513,054
RETRO RETURN RESERVE			
Designated catastrophic reserves	30,995,477	29,267,410	27,184,317
Invested in capital assets	1,448,420	1,437,362	1,088,592
Undesignated	23,714,244	19,964,429	18,021,037
Total retro return reserve	56,158,141	50,669,201	46,293,946
Total liabilities and retro return reserve	\$116,637,328	\$108,790,794	\$102,807,000

- MOPERM was established to offer liability protection to participating public entities, their officials and employees. MOPERM has been successfully providing member entities with broad coverages at stable and economical rates. About eight years ago, MOPERM's Board of Trustees approved the offering of property insurance coverage to its members. MOPERM decreased its overall membership by 20 members during 2011, by 29 members in 2010 and 30 members in 2009. The reduction of

members in 2011, 2010 and 2009 was due to the soft market and competition within the state. In 2011, MOPERM lost about \$1,491,283 in contribution compared to \$1,261,739 loss in contribution in 2010. Even though the overall contribution collected decreased, total assets increased by \$7,846,534 to \$116,637,328 and \$5,983,794 to \$108,790,794 in 2011 and 2010. Cash and investments had the biggest increase of \$7,862,993 and \$5,616,010 in 2011 and 2010. Capital assets increased by \$11,058 and \$348,770 during 2011 and 2010. In 2010, computer equipment totaling \$53,311 was purchased to complement the new risk management software system that is designed to integrate policy administration, accounting and claims. As of December 31, 2011, \$417,004 of the new risk management software system had been purchased. The software implementation is expected to be complete in 2012 when the claims module is added. During 2011, receivables decreased by \$29,468. This is due to the decrease in accrued interest on investments and the decrease in deductible billing receivables.

- Total liabilities increased by \$2,357,594 and \$1,608,539 in 2011 and 2010 to \$60,479,187 and \$58,121,593. The increase in liabilities in 2011 was primarily associated with an increase in advance contributions and retro return reserve refunds. The increase in 2010 was associated with an increase in loss reserves for incurred but not reported. MOPERM reserves 75% of annual liability contributions to pay claims. This percentage conservatively reflects past claims history. This reserve is reviewed annually by an independent actuary. MOPERM has no long term debt.
- Retro Return Reserve for 2011 and 2010 increased by net income of \$6,697,774 and \$4,375,255. Since its inception, MOPERM has refunded over \$7 million of contributions to the participating members. MOPERM's Board of Trustees declared a refund in 2011 for \$1,208,834. There was no refund declared for 2010.

	2011	2010	2009
OPERATING REVENUES			
Contributions	\$ 16,315,514	\$ 17,806,797	\$ 19,068,536
Investment income	3,051,178	3,425,809	3,612,904
Other income (expense)	2,727	100	52
Total operating revenues	19,369,419	21,232,706	22,681,492
OPERATING EXPENSES			
Loss and loss adjustment expense	11,073,435	12,107,531	12,658,959
Excess insurance premiums	1,447,161	1,273,174	1,119,946
General and administrative	2,366,185	2,504,618	2,624,008
Total operating expenses	14,886,781	15,885,323	16,402,913
Net operating income	4,482,638	5,347,383	6,278,579
Unrealized gain(loss) on investments	2,215,136	(972,128)	(592,232)
Net income	\$ 6,697,774	\$ 4,375,255	\$ 5,686,347

- Contributions earned for 2011 and 2010 decreased by \$1,491,283 and \$1,261,739. The property line of business had slight decreases of \$25,270 and \$28,361 for 2011 and 2010 which was attributed to the loss of members and a slight rate decrease of 2.91% and 2.03%. Liability contribution was a negative \$1,466,013 and \$1,233,378 for 2011 and 2010 due to a 4.99% and 2.28% rate decrease and the loss of members. In 2011, a new 5% package discount was applied to liability and property policies that held both property and liability lines of coverage.

- In 2011 and 2010, MOPERM has invested approximately \$107 and \$96.3 million, primarily in U.S. Government Agency Securities with final maturities of seven years or less, U.S. Government Guaranteed Mortgages and Collateralized Mortgage Obligations. Investment income consists of interest income, amortization of premium and discounts, and realized gains and losses on securities. Investment income for 2011 and 2010 decreased by \$374,630 and \$187,095 due to the volatile markets and lower interest rates on new purchases of investment in the portfolio. Because of the changes in the investment market, MOPERM experienced an unrealized gain on investments of \$3.2 million for 2011 and an unrealized loss on investments of \$972,128 for 2010.
- Loss and loss adjustment expense decreased \$1,034,096 and \$551,428 in 2011 and 2010. MOPERM paid out approximately \$608,000 more in net loss and loss expenses in 2011 than 2010. MOPERM paid out approximately \$1.9 million less in net loss and loss expenses in 2010 than 2009. The majority of the change in 2011 was due to the change in case reserves and incurred but not reported reserves.
- Excess insurance premiums increased by \$173,987 and \$153,228 in 2011 and 2010 even though there was a decrease in property members. In 2011, excess rates stayed the same but a large member was added, increasing the excess insurance premiums. In 2010, MOPERM experienced an increase in excess rates on property and boiler and machinery lines of business. The excess insurance ceded premium for property increases/decreases as members are added or non-renewed and cancelled.
- General and administrative expenses approximated 14.5% and 14.1% of total contributions earned for 2011 and 2010, respectively. Due to the decrease in contribution earned, the percentage of expense to contribution increased, but actual expenses decreased by \$138,433 and \$119,390 in 2011 and 2010. The majority of this decrease was due to decreases in commission expense.

FINANCIAL SUMMARY

In 2011, MOPERM had another decrease in its overall membership and a decrease of \$1,491,283 in contribution. MOPERM had an overall decrease in rates of 4.79%; the liability program had a base rate decrease of 4.99% while the property program had a slight decrease of 2.91%. MOPERM implemented a new software system that changed how contribution is calculated and created rating differences and how it applies debits and credits. Also new package policies and new package discounts were implemented and applied to 2011 renewals. The Executive Director mandated minimal underwriting to be performed on 2011 renewal pricing because of the implementation of the new software program. MOPERM had a total of 861 entities that contributed to the pool in 2011 compared to 888 participating members in 2010. The insurance market remained soft and there were several competitors in the state that were able to offer lower prices to public entities.

Net income increased by \$2,322,520 in 2011. This is due primarily to the unrealized gain on investments. The general and administrative expenses decreased slightly from 2010. Retro return reserves increased by \$6,697,774 in 2011 totaling \$56,158,141 at December 31, 2011.

A refund of \$1,208,834 was declared in 2011 to be issued in 2012.

Economic Environment and Next Year's Budget and Rates

Since 1987, MOPERM has been a competitive alternative for local government agencies seeking to manage rising coverage costs against growing exposures and tight budgets. Rates are analyzed by an actuary each year and rate recommendations are made to management. Management analyzes the actuary's rate recommendations and suggests rate changes based on actual loss experience and the current insurance market.

The 2012 estimated contribution was down about 10% compared to the final 2011 contribution amount. The decrease was the anticipation of losing more members to our competitors. Several competitors are becoming very aggressive in writing public entity business. The total operating expenses are budgeted to decrease about 9% in 2012. The largest increments are loss and loss expense with a slight decrease in property excess insurance and general and administrative expenses. In 2012, there is an increase in property excess rates but MOPERM rates remained the same for the entities. The total of general and administrative, and excess insurance premiums are about 25% of total budgeted contribution. The loss and loss expense percentage remains constant at about 75% of budgeted liability contribution each year.

Contacting the Fund's Financial Management

This financial report is designed to provide our members and the public with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the contribution it receives. If you have questions about this report or need additional financial information, contact the Fiscal Manager, Cathy Schulte, at PO Box 7110, Jefferson City, MO 65102, (573)751-1266 ext. 114 or e-mail Cathy-Schulte@moperm.com.

**BASIC
FINANCIAL
STATEMENTS**

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND
BALANCE SHEETS

DECEMBER 31, 2011 and 2010

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 7,424,453	\$ 10,216,568
Short-term investments	4,031,475	7,776,083
Deposits and accounts receivable other than contributions	135,432	161,880
Accrued interest receivable	563,123	573,622
Contributions in the course of collection	7,479	-
Prepaid expenses	12,033	10,082
Total current assets	<u>12,173,995</u>	<u>18,738,235</u>
Noncurrent assets		
Long-term investments	103,014,913	88,615,197
Capital assets (net of accumulated depreciation of \$1,551,686 in 2011 and \$1,485,252 in 2010)	<u>1,448,420</u>	<u>1,437,362</u>
Total noncurrent assets	<u>104,463,333</u>	<u>90,052,559</u>
Total assets	<u><u>\$ 116,637,328</u></u>	<u><u>\$ 108,790,794</u></u>
Liabilities and Retro Return Reserve		
Current liabilities:		
Loss and loss adjustment expense reserves	\$ 50,850,122	\$ 50,614,714
Advance contributions	8,333,436	7,334,387
Retro return reserve refunds payable	1,208,834	-
Accounts payable and accrued expenses	<u>86,795</u>	<u>172,492</u>
Total liabilities	<u>60,479,187</u>	<u>58,121,593</u>
Retro return reserve (unrestricted):		
Designated catastrophic reserves	30,995,477	29,267,410
Invested in capital assets	1,448,420	1,437,362
Undesignated	<u>23,714,244</u>	<u>19,964,429</u>
Total retro return reserve (unrestricted)	<u>56,158,141</u>	<u>50,669,201</u>
Total liabilities and retro return reserve	<u><u>\$ 116,637,328</u></u>	<u><u>\$ 108,790,794</u></u>

The accompanying notes are an integral part of these financial statements.

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND
STATEMENTS OF OPERATIONS AND CHANGES
IN RETRO RETURN RESERVE**

FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

	2011	2010
Revenues:		
Contributions	\$ 16,315,514	\$ 17,806,797
Investment income	3,051,178	3,425,809
Other income (expense)	<u>2,727</u>	<u>100</u>
 Total operating revenues	 <u>19,369,419</u>	 <u>21,232,706</u>
 Expenses:		
Loss and loss adjustment expenses	11,073,435	12,107,531
Excess insurance premiums	1,447,161	1,273,174
General and administrative	<u>2,366,185</u>	<u>2,504,618</u>
 Total operating expenses	 <u>14,886,781</u>	 <u>15,885,323</u>
 Net operating income	 <u>4,482,638</u>	 <u>5,347,383</u>
 Unrealized gains on investments	 <u>2,215,136</u>	 <u>(972,128)</u>
 Net income	 <u>6,697,774</u>	 <u>4,375,255</u>
 Retro return reserve, beginning of year	 <u>50,669,201</u>	 <u>46,293,946</u>
 Refunds to members, net of refunds returned	 <u>(1,208,834)</u>	 <u>-</u>
 Retro return reserve, end of year	 <u>\$ 56,158,141</u>	 <u>\$ 50,669,201</u>

The accompanying notes are an integral part of these financial statements.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Contributions collected	\$ 17,307,084	\$ 17,547,858
Loss and loss adjustment expenses paid	(10,811,579)	(10,366,210)
Payments to suppliers and excess insurer	(3,219,623)	(2,998,018)
Payments to employees	(614,525)	(622,929)
Investment income received	2,980,600	3,387,027
Other income (loss)	2,727	100
Net cash provided by operating activities	<u>5,644,684</u>	<u>6,947,828</u>
Cash flows used in capital and related financing activities:		
Purchases of capital assets	(77,904)	(418,109)
Cash flows from investing activities:		
Proceeds from matured investments	67,002,422	94,885,220
Investments purchased	(75,361,317)	(105,660,579)
Net cash used in investing activities	<u>(8,358,895)</u>	<u>(10,775,359)</u>
Change in cash and cash equivalents	(2,792,115)	(4,245,640)
Cash and cash equivalents, beginning of year	10,216,568	14,462,208
Cash and cash equivalents, end of year	<u>\$ 7,424,453</u>	<u>\$ 10,216,568</u>
Reconciliation of net operating income to net cash provided by operating activities:		
Net operating income	<u>\$ 4,482,638</u>	<u>\$ 5,347,383</u>
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	66,846	69,339
Accretion of discounts and amortization of premiums, net	119,738	301,013
Realized gain on investments	(200,815)	(359,432)
Changes in certain assets and liabilities:		
(Increase) decrease in deposits and accounts receivable other than contributions	26,448	(42,437)
(Increase) decrease in accrued interest receivable	10,499	19,638
(Increase) decrease in contributions in course of collection	(7,479)	2,741
(Increase) decrease in prepaid expenses	(1,951)	1,044
Increase (decrease) in loss and loss adjustment expense reserves	235,408	1,783,758
Increase (decrease) in advance contributions	999,049	(261,680)
Increase (decrease) in accounts payable and accrued expenses	<u>(85,697)</u>	<u>86,461</u>
Net adjustments	<u>1,162,046</u>	<u>1,600,445</u>
Net cash provided by operating activities	<u>\$ 5,644,684</u>	<u>\$ 6,947,828</u>
Schedule of noncash investing, capital and financing activities:		
Increase (Decrease) in fair value of investments	\$ 2,215,136	\$ (972,128)

The accompanying notes are an integral part of these financial statements.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

1. Reporting Entity

The Missouri Public Entity Risk Management Fund (“MOPERM”) is a body corporate and politic created by the Missouri General Assembly and signed into law on June 20, 1986. MOPERM became operational January 1, 1987. Although the State of Missouri is responsible for appointing some of the members of the Board of Trustees, the State’s accountability does not extend beyond these appointments. Accordingly, MOPERM is considered a related organization of the State of Missouri but is not considered a component unit.

The purpose of MOPERM, as established in Chapter 537.700 RSMo 1986 and in the bylaws, is to provide liability protection to participating public entities, their officials and employees. Effective July 1, 2003, MOPERM added property coverage to its services offered to such participating members. MOPERM had a total of 861 and 888 contributors, including cities, counties, healthcare entities and school districts, as of December 31, 2011 and 2010, respectively.

MOPERM uses only proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail. Government-wide financial statements are not presented as such information would be repetitive.

2. Basis of Accounting and Summary of Significant Accounting Policies

Basis of Accounting

MOPERM prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for governmental enterprise funds. These principles are similar to those for private business enterprises. Accordingly, revenues are recorded when earned and expenses when incurred. MOPERM applies all Financial Accounting Standards Board (FASB) statements and interpretations that do not conflict with or contradict the Governmental Accounting Standards Board (GASB) pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and overnight repurchase agreements. All cash on deposit is insured by federal depository insurance or collateralized by securities held by the counter party financial institution’s trust department or agent in MOPERM’s name. The carrying amounts reported in the balance sheets approximate the fair value of these instruments.

Investments

MOPERM reports investments at fair value, with the changes in fair value reported in the Statements of Operations and Changes in Retro Return Reserve. The estimated fair value of fixed maturity investments is based on quoted market prices. Interest income is recorded when earned. Realized gains and losses on investments are determined using the specific identification method. Total realized gains were \$200,815 and \$359,432 for the years ended December 31, 2011 and 2010, respectively.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

NOTE 2 – Continued (Basis of Accounting and Summary of Significant Accounting Policies)

Capital Assets

Capital assets are stated at cost, less accumulated depreciation. Improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Realized gains and losses are recognized upon disposal or retirement of the related assets and are reflected in current operations.

Depreciation is calculated on a straight-line basis over the following estimated useful lives of the respective assets:

	Depreciable Life
Automobiles	3 years
Computer equipment and software	3-5 years
Equipment	5 years
Furniture and fixtures and building improvements	5-10 years
Building	40 years

Contributions

Contributions are recognized as revenue over their related policy period. Advance contributions represent contributions received in the current year for policies effective the following year. No unearned contribution is reflected at year-end as all policies expire on December 31.

Annual contributions are calculated based on actuarial projections to produce sufficient funds to pay losses and expenses. If contributions do not produce sufficient funds to meet obligations, MOPERM is empowered to make special assessments. Members are jointly and severally liable for claims against MOPERM.

Retro Return Reserve Refunds

If collected contributions and interest income exceed the total amount of all paid claims, claim expenses, operating expenses, and the catastrophic retro return reserves allocation in any given year, the Board of Trustees may declare that a refund of the excess amount be made. The refund shall be on a pro rata basis to all participating public entities based on the contributions of the public entity for the immediately preceding year. Unless otherwise determined by the Board of Trustees, no refund will be made until all claims are closed and the appropriate statute of limitations has expired for that policy year. Refunds are recorded in the year declared.

Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expenses are charged to income as incurred. Loss and loss adjustment expense reserves represent the accumulation of estimates for reported unpaid losses including loss adjustment expenses, the effects of inflation and other societal and economic factors, plus a provision for losses incurred but not reported. Loss adjustment expenses represent anticipated costs of settling claims, including attorneys' and adjusters' fees. The reserves for incurred but not reported loss and

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

NOTE 2 – Continued (Basis of Accounting and Summary of Significant Accounting Policies)

loss adjustment expenses are actuarially determined and based on a computation that applies varying percentages to each policy year's earned contributions, less cumulative claims paid and reported unpaid loss reserves at the balance sheet date. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in earnings.

Designated Catastrophic Reserves

The designated catastrophic reserves are funds designated by the Board of Trustees to cover catastrophic losses incurred by MOPERM for any policy year. The balances at December 31 for policy years 2006 through 2010 is equivalent to 10% of the earned contribution and 15% of the earned contribution for all policy years since MOPERM's inception minus \$1,545,447 for policy year 2002; plus any undesignated retro return reserves of a policy year that is twenty years old. The total of these reserves at December 31, 2011 and 2010 is \$45,135 and \$259,136, respectively. During 2005, the Board of Trustees approved the transfer of the catastrophic reserves for policy year 2002 to the Undesignated Retro Return Reserves. If losses in any policy year exceed total contributions and designated catastrophic reserves, additional assessments could be made to applicable members for the policy year the losses occurred.

Operating and Non-operating Income and Expenses

All revenues and expenses, except the unrealized gain or loss on investments, are considered operating. Investment income is considered operating revenue.

Income Taxes

The Internal Revenue Service ruled that MOPERM is exempt from federal income tax under Section 115 of the Internal Revenue Code.

Management's Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Subsequent Events

MOPERM evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through March 19, 2012, which is the date the financial statements were available to be issued.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

3. Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, MOPERM's deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MOPERM will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. As of December 31, 2011 and 2010 no investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, and were held in MOPERM's name.

Cash balances include short-term securities and operating balances held by financial institutions. At December 31, 2011 and 2010, the carrying amount of deposits at the financial institutions was \$27,319 and \$(450,629), the bank balance was \$251,144 and \$0, respectively. Of the bank balance, \$250,000 was covered by federal depository insurance at December 31, 2011 and 2010. In addition, at December 31, 2011 and 2010, Central Bank participated in the FDIC's Transaction Account Guarantee Program which provides for a temporary full guarantee by the FDIC for funds in noninterest bearing transaction accounts above the existing FDIC limit. At December 31, 2011 and 2010, an additional \$7,397,134 and \$10,667,197 was held in overnight repurchase agreements with a book value of \$7,397,134 and \$10,667,197. The repurchase agreements were collateralized by securities delivered to a third party institution mutually agreed upon by the financial institution and MOPERM. The bank overdraft of \$450,629 at December 31, 2010 is offset by the repurchase agreements as discussed above.

Investment Policies

MOPERM's investment policy allows investments in: time deposits with maturity of twenty four months or less, U.S. Treasury securities with final maturities of seven years or less, U.S. mortgage backed securities with final maturities of twenty years and a seven year average life or less at purchase, U.S. Government agency securities with final maturities of seven years or less, collateralized mortgage obligations that have a weighted average life not to exceed seven years and pass the FFIEC High Risk Stress Test, corporate issued and guaranteed by FDIC or other government programs under the "Temporary Liquidity Guarantee Program" with final maturities of seven years or less, commercial paper that may not exceed 180 days to maturity and repurchase agreements.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

NOTE 3 – Continued (Deposits and Investments)

Investment Summary:

The following table presents the summary of MOPERM'S investments by type at December 31, 2011 and 2010:

	2011	2010
U.S. Agencies	\$ 83,566,711	\$ 68,528,548
U.S. Government Guaranteed Mortgages	9,479,581	13,766,940
Collateralized Mortgage Obligations	14,000,096	14,095,792
	<hr/> \$ 107,046,388	<hr/> \$ 96,391,280

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. MOPERM's investment guidelines require diversified portfolios with no single issue being greater than 5% of the portfolio, except for obligations of the U.S. government or its agencies. As of December 31, 2011 and 2010, no single issue exceeds 5% of the portfolio.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to MOPERM. At December 31, 2011 and 2010, all investments are guaranteed by the U.S. Government.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt instrument's exposure to a change in interest rates and the related sensitivity of market price to parallel shifts in the yield curve. It uses the present value of cash flows, weighted for those cash flows as a percentage of the instruments' full price. MOPERM mitigates interest rate risk through the duration of investments outlined in its investment policy.

Foreign Currency Risk

MOPERM held no foreign investments or currency as of December 31, 2011 and 2010.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

4. Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

Category	Balance at December 31, 2010	Additions	Deductions/Transfers	Balance at December 31, 2011
Capital assets, not being depreciated				
Work in progress	\$ 362,054	\$ 54,950	\$ -	\$ 417,004
Capital assets, being depreciated				
Building and building improvements	1,159,491	-	-	1,159,491
Equipment	26,798	1,277	412	27,663
Furniture and fixtures	103,326	988	-	104,314
Computer equipment and software	1,222,390	20,689	-	1,243,079
Automobiles	48,555	-	-	48,555
Total capital assets, being depreciated	2,560,560	22,954	412	2,583,102
Less accumulated depreciation	1,485,252	66,846	412	1,551,686
Total capital assets, being depreciated, net	1,075,308	(43,892)	-	1,031,416
Capital assets, net	\$ 1,437,362	\$ 11,058	\$ -	\$ 1,448,420

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

NOTE 4 – Continued (Capital Assets)

Capital asset activity for the year ended December 31, 2010 was as follows:

Category	Balance at December 31, 2009	Additions	Deductions/ Transfers	Balance at December 31, 2010
Capital assets, not being depreciated				
Work in progress	\$ -	\$ 362,054	\$ -	\$ 362,054
Capital assets, being depreciated				
Building and building improvements	1,159,491	-	-	1,159,491
Equipment	43,198	1,600	18,000	26,798
Furniture and fixtures	102,181	1,145	-	103,326
Computer equipment and software	1,169,080	53,310	-	1,222,390
Automobiles	48,555	-	-	48,555
Total capital assets, being depreciated	<u>2,522,505</u>	<u>56,055</u>	<u>18,000</u>	<u>2,560,560</u>
Less accumulated depreciation	<u>1,433,913</u>	<u>69,339</u>	<u>18,000</u>	<u>1,485,252</u>
Total capital assets, being depreciated, net	<u>1,088,592</u>	<u>(13,284)</u>	<u>-</u>	<u>1,075,308</u>
Capital assets, net	<u>\$ 1,088,592</u>	<u>\$ 348,770</u>	<u>\$ -</u>	<u>\$ 1,437,362</u>

Total depreciation expense for the years ended December 31, 2011 and 2010 was \$66,846 and \$69,339, respectively.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

5. Loss and Loss Adjustment Expense Reserves

Activity in the loss and loss adjustment expense reserves was as follows:

	2011	2010
Loss and loss adjustment expense reserves, beginning of year, net of reinsurance recoverable of \$709,763 in 2011 and \$991,689 in 2010	\$ 50,614,714	\$ 48,830,956
Incurred loss and loss adjustment expenses:		
Provision for insured events – current year	11,480,426	12,218,540
Provision for insured events – prior years	<u>(406,991)</u>	<u>(111,009)</u>
Total incurred loss and loss adjustment expenses	<u>11,073,435</u>	<u>12,107,531</u>
Payments:		
Loss and loss adjustment expenses		
attributable to insured events – current year	6,138,713	3,413,227
Loss and loss adjustment expenses		
attributable to insured events – prior years	<u>4,699,314</u>	<u>6,910,546</u>
Total payments	<u>10,838,027</u>	<u>10,323,773</u>
Loss and loss adjustment expense reserves, end of year, net of reinsurance recoverable of \$803,456 in 2011 and \$709,763 in 2010	<u>\$ 50,850,122</u>	<u>\$ 50,614,714</u>

The provision for prior year insured events represents the variations between MOPERM's estimated claims payable for prior years' claims and the actual amounts required to satisfy such claims.

6. General and Administrative Expenses

The most significant components of general and administrative expenses are salary, employee benefit, agent commission, and loss control services expenses. All employees administering MOPERM are employees of the State of Missouri and are covered by the Missouri State Employees' Retirement

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

NOTE 6 – Continued (General and Administrative Expenses)

System. MOPERM reimburses the State of Missouri, a related organization, for all costs of administration, including salary costs of \$609,668 for 2011 and \$629,827 for 2010 and pension costs of \$84,342 for 2011 and \$82,274 for 2010. As of December 31, 2011 and 2010, payables due to the State of Missouri totaled \$35,234 and \$112,535, respectively. The State of Missouri's other post employment benefit package is subject to the measurement and disclosure requirements of GASB 45.

Effective during the 2008 year, the amounts paid to the State of Missouri include a contribution allocation to reimburse the State for the funding of the post retirement health insurance liability. This liability is recognized in total by the State of Missouri. MOPERM's financial statements reflect their allocated share of funding requirement.

All property business is required to be written through agents where liability business can be written direct or through an agent. Agent commission expense totaled \$1,261,806 and \$1,362,561 for the years ended December 31, 2011 and 2010, respectively. Loss control services, provided by an outside consultant, approximated \$109,381 and \$109,819 for the years ended December 31, 2011 and 2010, respectively.

7. Retro Return Reserve Refunds

The Board of Trustees of MOPERM did declare retro return reserve refunds in the amount of \$1,208,834 in 2011 but did not declare refunds for 2010. As of December 31, 2011, cumulative retro return reserve refunds were as follows:

Policy Year	Refunds		Refunds Total Declared	Percentage of Contributions Refunded
	Declared and Paid Prior to 2010	Declared and Accrued During 2011		
1987	\$1,391,082	\$ -	\$1,391,082	85%
1988	2,074,331	-	2,074,331	76%
1989	519,031	-	519,031	23%
1990	933,499	-	933,499	45%
1991	-	281,229	281,229	12%
1992	643,707	146,297	790,004	27%
1994	155,373	-	155,373	3%
1995	1,175,375	587,688	1,763,063	30%
1996	129,080	193,620	322,700	5%
	\$7,021,478	\$ 1,208,834	\$8,230,312	

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

8. Excess Insurance

MOPERM maintains excess insurance coverage with outside insurance carriers for the property program. The property excess policy, with Allianz Insurance Company, provides coverage of \$200,000,000 for each occurrence. MOPERM's 2011 and 2010 retention per claim was \$50,000 and \$100,000 per occurrence, except wind and hail that had a \$150,000 retention per claim and \$200,000 per occurrence, with no annual aggregate. The boiler and machinery excess policy, with Zurich American Insurance Company, provides coverage of \$50,000,000 for each occurrence with no annual aggregate and MOPERM had a \$10,000 deductible per occurrence for 2011 and 2010. The crime excess policy, with Travelers Casualty and Surety of America, provides coverage of \$50,000 per occurrence and MOPERM's retention per occurrence was \$5,000 with no annual aggregate for both 2011 and 2010.

Since July 7, 2002, MOPERM has elected not to purchase an excess insurance policy for liability.

9. Condominium Association

On February 4, 2005, MOPERM purchased an office condominium in the Howerton Center Condominium. In conjunction with the purchase, MOPERM became a one-third member of The Howerton Center Condominium Association, Inc. (Corporation). The Corporation is a Mutual Benefit Corporation formed for the purpose of maintaining the common areas in The Howerton Center Condominium and performing all other duties set forth in the Declaration of Condominium. MOPERM contributed \$1,000 to the Corporation for operating funds. MOPERM is billed utilities, insurances and other expenditures by the Corporation as outlined in the Corporation's Condominium Declarations and Bylaws. MOPERM records such expenditures on the accrual basis of accounting as general and administrative expenses.

10. Contingencies

MOPERM is a party to a number of lawsuits arising in the normal course of business. One legal action could result in material loss. In the opinion of the MOPERM's legal counsel and management, MOPERM will prevail in this action and material loss will not occur. While the results of other litigation cannot be predicted with certainty, management, based upon advice of MOPERM's counsel, believes the final outcome of the other litigation will not have a material adverse effect on MOPERM's financial position or its results of operations.

11. Commitments

MOPERM is in the process of purchasing a new risk management software system that is designed to integrate policy administration, accounting and claims. The contract for purchase has a total dollar amount of \$459,000, of that amount \$54,950 and \$362,053 was paid during 2011 and 2010, the remaining amount will be paid in 2012.

SUPPLEMENTAL INFORMATION

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND
SUPPLEMENTAL SCHEDULE OF 2002-2011
LOSS DEVELOPMENT INFORMATION

DECEMBER 31, 2011

The following page illustrates how MOPERM's earned revenues (net of excess insurance) and investment income compared to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by MOPERM for each of the ten years ended December 31, 2011. The rows of the table are defined as follows:

- (1) The total of each fiscal year's gross earned contribution revenues and investment revenues. Earned contribution revenue and investment revenue paid to excess insurers and earned contribution revenue and investment revenue net of the effects of excess reinsurance premiums.
- (2) Each fiscal year's other operating costs of MOPERM including overhead and claims expense not allocable to individual claims.
- (3) MOPERM's gross incurred losses and allocated loss adjustment expense, losses assumed by excess insurer and net incurred losses and allocated loss adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) The cumulative net amounts paid as of the end of successive years for each policy year.
- (5) The latest re-estimated amount of losses assumed by excess insurers as of the end of each year for each accident year.
- (6) Each policy years incurred losses increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses, as well as the emergence of new losses not previously known.
- (7) Compares the latest re-estimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of loss cost are greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred losses currently recognized in less mature policy years. The columns of the table show data for successive policy years.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT

SUPPLEMENTAL SCHEDULE OF 2002-2011 LOSS DEVELOPMENT INFORMATION, CONTINUED DECEMBER 31, 2011

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Fiscal year ended:										
(1) Contribution and investment revenue:										
Earned	\$ 11,746,288	\$ 13,758,081	\$ 19,112,502	\$ 22,356,241	\$ 24,528,670	\$ 25,941,702	\$ 26,430,915	\$ 22,681,440	\$ 21,232,605	\$ 19,366,692
Ceded	(36,233)	(58,521)	(712,489)	(890,355)	(1,119,915)	(1,378,279)	(1,170,558)	(1,119,946)	(1,273,174)	(1,447,161)
Net earned	11,710,055	13,699,560	18,400,014	21,365,886	23,408,755	24,563,423	25,680,357	21,361,494	19,959,431	17,919,531
(2) Unallocated expenses	1,552,038	1,793,366	2,616,855	2,796,814	3,004,756	2,993,869	3,159,917	2,624,408	2,504,618	2,366,185
Policy year ended:										
(3) Estimated incurred loss and loss adjustment expense, end of policy year										
Insured	7,727,237	9,257,889	12,742,751	14,344,347	15,374,073	15,169,791	16,096,860	13,351,739	12,505,206	12,233,711
Ceded	-	-	(278,067)	(2,631)	(330,067)	(210,840)	(38,579)	(398,943)	(286,666)	(753,284)
Net incurred	7,727,237	9,257,889	12,464,684	14,341,716	15,044,007	14,958,951	15,511,065	12,922,795	12,218,540	11,480,427
(4) Net paid losses (cumulative) as of:										
End of policy year	2,600,699	2,186,599	2,226,701	2,360,924	2,850,824	2,660,991	3,244,802	2,734,679	3,126,561	5,385,540
One year later	3,316,104	2,921,068	4,105,287	3,296,373	3,743,592	4,181,825	5,138,156	4,311,864	5,182,373	-
Two years later	4,736,377	4,380,519	5,686,677	5,170,224	5,263,978	7,913,383	7,013,470	5,188,008	-	-
Three years later	7,686,502	6,656,643	6,497,502	8,501,426	6,520,461	9,331,422	8,082,339	-	-	-
Four years later	8,775,277	6,286,181	7,383,707	8,873,080	7,078,303	7,710,710	-	-	-	-
Five years later	10,240,003	7,632,563	7,865,666	9,680,238	7,493,188	-	-	-	-	-
Six years later	9,920,918	7,937,430	8,307,063	9,788,245	-	-	-	-	-	-
Seven years later	11,186,555	8,142,256	8,329,245	-	-	-	-	-	-	-
Eight years later	11,285,290	8,160,723	-	-	-	-	-	-	-	-
Nine years later	11,285,287	-	-	-	-	-	-	-	-	-
(5) Re-estimated ceded loss and loss adjustment expense	-	-	(569,344)	(37,479)	(830,436)	(294,168)	(1,017,820)	(732,765)	(334,886)	(753,284)
(6) Re-estimated incurred loss and loss adjustment expense:										
End of policy year	7,727,237	9,257,889	12,464,684	14,311,716	15,044,007	14,958,951	15,511,065	12,922,795	12,218,540	11,174,583
One year later	7,727,237	9,259,123	12,439,325	14,305,897	14,987,767	14,926,969	15,186,111	12,798,194	12,143,246	-
Two years later	9,272,684	9,259,123	12,439,325	14,288,296	14,969,152	14,913,866	15,226,953	12,798,195	-	-
Three years later	10,921,161	9,259,123	12,439,325	14,286,450	14,968,152	14,913,866	15,226,953	-	-	-
Four years later	10,921,161	9,259,123	12,439,325	14,286,450	14,976,799	14,913,866	-	-	-	-
Five years later	10,921,161	9,259,123	12,439,325	14,286,450	14,976,799	-	-	-	-	-
Six years later	10,921,161	9,259,123	12,439,325	14,286,450	-	-	-	-	-	-
Seven years later	11,333,280	9,259,123	-	-	-	-	-	-	-	-
Eight years later	11,418,074	9,259,123	-	-	-	-	-	-	-	-
Nine years later	11,418,074	-	-	-	-	-	-	-	-	-
(7) Increase (decrease) in estimated incurred losses and loss adjustment expenses from end of policy year	3,690,837	1,234	(25,359)	(43,266)	(67,208)	(45,265)	(284,112)	(154,600)	(75,294)	-

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Reconciliation of Claims Liabilities by Type of Contract For the Years Ended December 31, 2011 and 2010

The schedule below presents the changes in claims liabilities for the past two years for the Fund's two types of contracts: Liability and Property.

	Liability		Property	
	2011	2010	2011	2010
Loss and loss adjustment expense reserves, beginning of year.	\$ 50,301,135	\$ 48,520,787	\$ 313,579	\$ 310,169
Incurred loss and loss adjustment expenses:				
Provision for insured events – current year	9,808,142	10,907,651	1,672,284	1,310,889
Provision for insured events – prior years	(334,234)	(5,896)	(72,757)	(105,113)
Total incurred loss and loss adjustment expenses	<u>9,473,908</u>	<u>10,901,755</u>	<u>1,599,527</u>	<u>1,205,776</u>
Payments:				
Loss and loss adjustment expenses attributable to insured events – current year	4,115,909	2,129,252	2,022,804	1,283,975
Loss and loss adjustment expenses attributable to insured events – prior years	5,214,313	6,992,155	(514,999)	(81,609)
Total payments	<u>9,330,222</u>	<u>9,121,407</u>	<u>1,507,805</u>	<u>1,202,366</u>
Loss and loss adjustment expense reserves, end of year.	\$ 50,444,821	\$ 50,301,135	\$ 405,301	\$ 313,579